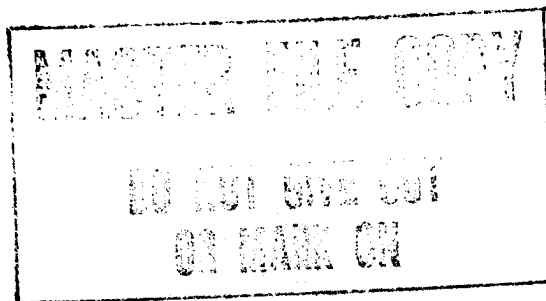




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The Soviet Economy Midway Through the 11th Five-Year Plan



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An Intelligence Assessment

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July 1983

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The Soviet Economy Midway Through the 11th Five-Year Plan



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*SOV 83-10115
July 1983*

Confidential**The Soviet Economy
Midway Through
the 11th Five-Year Plan**

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Key Judgments

*Information available
as of 1 June 1983
was used in this report.*

The slow rate at which the Soviet gross national product grew in the first two years of the 11th Five-Year Plan (1981-85) continued the sharp deceleration of the late 1970s and reflected the impact of a combination of outside influences, systemic problems, and policy decisions:

- The outside factors include the third and fourth consecutive years of harsh weather, which depressed agricultural production; declining increments to the working-age population, which led to labor shortages; and the rising cost and increasing difficulty of extracting and transporting energy resources (notably oil and coal) and other raw materials, which intensified the impact of already existing bottlenecks.
- Despite various “reforms,” the USSR’s tightly centralized system of planning and management has not changed in ways that could help spur the productivity increases necessary to offset the squeeze generated by factors beyond the Kremlin’s control.
- Economic policy decisions also affected performance. In particular, the decision to markedly reduce the rate of growth of capital investment (on the assumption that increases in capital productivity are consistent with slowing investment growth) clearly was misguided.

As a result, the 11th Five-Year Plan goals are beyond reach. The surge in growth that would be required to offset the shortfalls in 1981-82 is not remotely possible. Furthermore, the Soviet planners realize that the plan is a dead letter—their 1983 goals for key economic aggregates are generally below the average annual growth rates implied in the 1981-85 Plan. Even so, the 1983 plan is unrealistic. Its target growth rates are for the most part well above the rates achieved in 1981-82.

In formulating the 1983 plan, Soviet officials apparently saw no need for—or could not agree on—a “midcourse correction” of either strategy or approach. For example, Andropov’s investment policy—more renovation and modernization and less new construction—is not new. It was the main feature of the 1976-80 Plan and a central part of the current plan. Carrying out such a strategy will be even more difficult in 1983 because of declining steel production and other resource constraints that impact directly on machinery production. Moreover, imports of Western equipment will not help much. They declined sharply in real terms between 1976 and 1981, and even in 1982, when machinery imports from the West picked up substantially, the total value of purchases was still below that of 1976.

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Continuity in economic policy contained in the 1983 plan is evident in other key areas as well:

- Even though Andropov has shown solicitude for consumers through a series of decrees ostensibly aimed at improving their lot, we have no evidence of any substantial redirection of resources to consumer industries.
- While Andropov's position on defense is not entirely clear, available evidence indicates that he has done nothing to accelerate military spending. Still, he may have made changes that are not yet discernible; or major changes may be impending. If, however, he is still on the fence, Andropov must soon decide how to approach the defense spending and allocation issue. The planning cycle for the 12th Five-Year Plan—1986-90—is already under way.
- The new regime also has not changed the policy on foreign trade set forth in the 11th FYP. The foreign trade plan for 1983 suggests that Moscow intends to increase trade with its Warsaw Pact partners and other Communist countries and reduce trade with the West.

Most of Andropov's statements and actions since he became General Secretary also suggest that in dealing with the economy he will emphasize continuity or, at most, slow and limited change. The conservatism and caution that he has generally exhibited could, of course, be mainly tactical. Marked deviations from the 1983 plan (which was formulated and approved before he assumed power) probably would not have been practical, or politically possible, in the first few months of his regime.

There have been a few indications that Andropov might be receptive to more "radical" reform. Since he replaced Brezhnev, for example, there has been much frank and far-ranging public discussion over what ails the Soviet economy and what remedial steps to take. Andropov himself has been extremely candid about the failure of the economy to perform well.

On balance, however, Andropov's commitment to continuity and moderation seems genuine:

- He has supported Brezhnev's food program, one component of the 1983 plan that he might well have backed away from.

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- The discipline and anticorruption campaign (his one major initiative in the economic sphere) implies a faith that the economic system is basically sound. He seems to believe that more managerial competence and a better attitude on the part of the workers are necessary first steps to making it work better.
- His comments, speeches, and published writings make clear his view that economic change must leave the current system basically intact.

Because Andropov apparently favors slow economic change and because implementing major shifts in strategy almost certainly would have to be left to the 1986-90 Plan period, we have not changed our pre-Andropov forecast that growth in GNP will be slow—about 2 percent a year on average through the 1980s. We think that even an ambitious, well-articulated reform program would not show significant results for growth and efficiency for several years. GNP growth will, of course, fluctuate in individual years. For example, this year it could be as high as 3.5 to 4 percent if agriculture has a “normal” year and there is some improvement in industry, or it could be as low as 2 percent if weather conditions and industrial performance worsen.

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The Soviet Economy Midway Through the 11th Five-Year Plan

Introduction

In the first half of the 1981-85 Plan period, the performance of the economy has been below Soviet expectations. The formulation of the 1983 plan, undertaken before Brezhnev's death, gave the leadership an opportunity to make midcourse corrections to their economic policies, which they failed to do. Yuri Andropov's rise to power has brought another opportunity for change.

This paper begins by describing and analyzing economic performance in 1981-82.¹ We then seek to determine whether and how economic policy may change beyond 1983, the midyear of the 11th Five-Year Plan; this is largely an analysis of the 1983 plan and Andropov's statements and actions since coming to power. Finally, we examine prospects for Soviet economic growth and development in light of these factors.

Performance in 1981-82

The results of the first two years of the 11th FYP must have been disappointing to Soviet leaders (table 1). Growth in gross national product (GNP) averaged about 2.1 percent, somewhat above that attained during 1979-80—1.0 percent—but well below both the 3.2-percent average annual rate of growth achieved during the 1970s and the 4.0-percent annual rate of growth planned for 1981-85.² In industry, serious bottlenecks persisted in both 1981 and

¹ Except where indicated, statistics for economic aggregates (such as GNP, industrial production, and total agricultural output) are CIA estimates based on Western definitions and concepts. CIA statistics are used not only because of definitional differences, but also because Soviet measures of some economic aggregates are biased upward, particularly by inadequate adjustments for inflation.

² These data are CIA estimates of Soviet GNP. The Soviet plans are expressed in terms of the less inclusive concept of net material product. For discussion of this issue, see John Pitzer, "Gross National Product of the USSR, 1950-80," in *USSR: Measures of Economic Growth and Development, 1950-80*, Joint Economic Committee of Congress, 8 December 1982, pp. 10-168.

Table 1
USSR: Growth of Gross National
Product by Sector of Origin,
Selected Periods

*Average annual
percent change*

	1971- 75	1976- 80	1980	1981	1982
Gross national product ^a	3.7	2.7	1.6	2.2	2.1
Agriculture ^b	-0.4	1.2	-3.2	0.4	3.2
Nonagricultural sectors	5.1	3.0	2.9	2.6	1.9
Industry	5.9	3.2	2.8	2.5	2.2
Construction	5.6	2.3	2.1	2.3	0.5
Transportation	6.5	3.5	3.9	3.8	1.1
Communications	7.3	5.8	5.6	5.0	3.3
Trade	4.6	2.9	2.3	2.5	1.3
Services	3.4	2.8	3.2	2.5	2.2
Other	3.7	2.7	1.6	2.2	2.1

^a Calculated at factor cost.

^b Excludes intra-agricultural use of farm products but does not make an adjustment for purchases by agriculture from other sectors. Value added in agriculture grew at an average annual rate of -2.3 percent in 1971-75, 0.5 percent in 1976-80, -5.7 percent in 1980, -0.5 percent in 1981, and 3.1 percent in 1982.

1982; shortages of raw materials, fuels, and power hampered production in almost all branches of industry. A marked decline in the performance of the railroads caused dislocations throughout the economy. Indeed, with the exception of agriculture, output in all sectors of the economy grew less in 1982 than in 1981. Agricultural production increased only about 1.8 percent a year in the two-year period, as 1982's 3.2-percent rise followed virtually no growth in 1981.

Agriculture—Some Recovery in 1982

The value of agricultural output, virtually the same in 1981 as in 1980, increased by over 3 percent in 1982. We estimate grain production at 165 million tons last

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Table 2
USSR: Production of Selected Agricultural Commodities

Million tons
 (except where noted)

	Annual							Average Annual	
	1980 Actual	1981		1982		1983 Plan	1985 Plan	1976-80 Actual	1981-85 Plan
		Plan	Actual	Plan	Actual				
Grain	189	236	158 ^a	238	165 ^b	238	245	205	239
Sugar beets	81	NA	61	98	71	96	NA	89	100
Cotton	10.0	NA	9.6	9.3	9.3	9.2	NA	8.9	9.2
Sunflower seeds	4.6	6.4	4.7	6.5	5.3	6.6	NA	5.3	6.7
Vegetables	27	28	26	29	29	30	NA	26	29
Potatoes	67	NA	72	88	78	89	NA	83	89
Meat	15.1	16.0	15.2	NA	15.2	16.2	18.2	14.8	17.1
Milk	91	95	89	NA	90	94	102	93	98
Eggs (<i>billion units</i>)	68	69	71	NA	72	71	75	63	72

^a Unofficially reported. Grain output has not been included in official Soviet statistics since 1980.

^b Estimated.

year—an increase of 7 million tons over 1981 but some 70 million tons short of plan.³ In the crucial livestock sector, meat output rose only fractionally while milk production turned upward for the first time since 1977. Production of fruits and vegetables reached record levels, while the output of potatoes, sugar beets, and sunflower seeds increased substantially over the depressed levels of 1981.

Despite the 1982 rebound, farm output was still some 6 percent below the 1978 peak-year level. In fact, the results for 1981-82 have put most of the 11th Five-Year Plan agricultural production goals beyond reach (table 2). For example, to reach the target for grain output, annual production in 1983-85 would have to average 290 million tons—more than 50 million tons greater than the record crop of 1978.

Industry

Industrial output registered an average annual growth of 2.4 percent during 1981-82, well below the almost 5-percent-a-year rate called for in the 1981-85 Plan

³ The US Department of Agriculture estimates the Soviet grain crop at 160 million tons in 1981 and 180 million tons in 1982.

and the 3.2-percent rate achieved in 1976-80. The slowdown was evident in practically every industrial branch (table 3). Particularly damaging to the economy was the poor performance of the ferrous metals, construction materials, and machinery branches. The slump in steel production and the shortfalls in building materials curtailed growth in construction and delayed the introduction of new production capacity.⁴ The low rates of growth of machinery output—only 3.6 percent annually during 1981-82, well below the 7-percent annual rate planned for 1981-85 and by far the lowest annual increase since World War II—interfered with Soviet efforts to modernize industry, conserve energy and raw materials, and increase productivity.

Energy

Production of major fuels (oil, natural gas, and coal) increased about 2.5 percent a year, on average, during 1981-82—below the average annual increase of 4.1

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Table 3
USSR: Industrial Production*Average annual
percent change*

	1971-75	1976-80	1981	1982
Industrial production	5.9	3.2	2.5	2.2
Industrial materials	5.4	2.4	1.9	1.1
Ferrous metals	4.0	1.0	-0.2	-0.9
Crude steel	4.1	0.9	0.3	-1.0
Rolled steel	4.1	0.8	-0.1	-0.9
Steel pipe	5.1	2.6	0.5	-0.4
Primary energy ^a	5.0	4.1	2.4	2.8
Coal	2.4	0.4	-1.7	2.0
Oil	6.8	4.2	0.9	0.6
Gas	7.9	8.5	6.9	7.7
Electric power	7.0	4.5	2.5	3.0
Chemicals	8.6	3.6	4.0	1.6
Wood, pulp, and paper	2.6	-0.3	2.3	1.4
Construction materials	5.4	1.2	1.4	-1.4
Machinery	8.0	5.0	3.4	3.8
Consumer nondurables	3.4	1.8	1.9	1.5
Food	3.9	1.1	1.9	2.8
Soft goods	2.7	2.7	1.9	-0.1

^a Includes oil, natural gas, coal, hydro and nuclear electricity, peat, oil shale, and fuel wood.

per cent achieved in 1976-80 (figure 1). Oil production, plagued by equipment and drilling supply shortages and by electrical power disruptions in West Siberia, barely rose.

Raw coal output increased in 1982 for the first time since 1978, although the level of production still was below that of 1977. Nearly all the gain in raw coal output, however, was offset by a continuing decline in the average energy content of the mined coal. In an effort to deal with labor shortages and falling labor productivity in the coal industry, Moscow raised the average wage for some coal miners in 1982 by 27 percent. These increases had little to do with the rebound in coal production, however (except perhaps in the Ukraine, where pay boosts may have been a partial cause of the surge in output). The bulk of the

rise in coal output came from mines not yet included in the pay boost, primarily because of a temporary recovery from unusually severe problems with equipment availability and the supply of electricity for mine operations.

Natural gas continued to be a major success story. Production targets were exceeded in both years, as output grew at a healthy 7.3-percent average annual rate during 1981-82. Of the five domestic gas trunklines to be constructed (from Urengoy in the producing area to Moscow and the central regions of the USSR) during 1981-85, three are now completed and in partial operation. Only 200 kilometers of the export pipeline remain to be laid, and pipelaying should be finished by autumn. Buoyed by success, Moscow is already discussing the possibility of building a sixth gas trunkline in the current five-year plan period from Urengoy to the central industrial region.

Transport

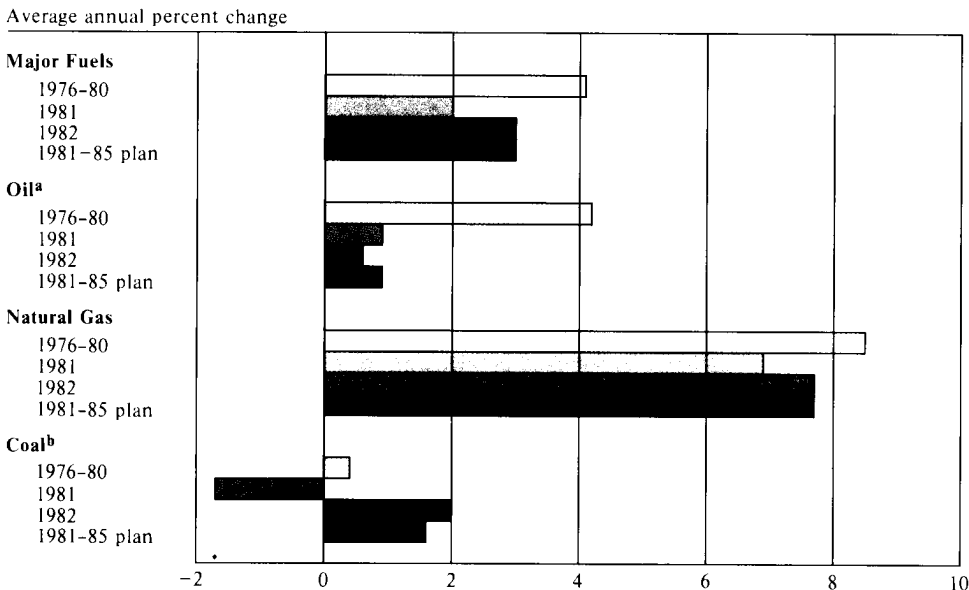
Even with economic growth slowing, the main modes of transport were not able to keep up with domestic demand for transport services during 1981-82 (table 4). In fact, the dislocations caused by transportation bottlenecks were a major factor in the decline in industrial growth during the period.

Freight turnover on the railroads, which bear the brunt of the transportation burden in the USSR, declined last year. The strain of transporting resources from production areas in Siberia to processing and production centers in the western parts of the USSR has simply overwhelmed the railroads (figure 2). The situation became so serious that in late 1982 Andropov singled out the railroads for special criticism and summarily fired Minister of the Railroads Ivan Pavlovskiy.

Consumer Well-Being

Consumer well-being in the USSR as measured by per capita consumption improved only slightly during 1981-82. Indeed, our estimate of per capita consumption of soft goods and durables was lower in 1982 than in 1981 (table 5). This was because of stagnating domestic production and, according to preliminary estimates, a possible leveling off of imports of nonfood consumer items.

Figure 1
USSR: Major Fuels Production



^a Including natural gas liquids.
^b Calculated on the basis of raw coal.

Even official figures released by the Soviets indicate that in 1982 the USSR's standard of living held its own at best and may, in fact, have fallen slightly:

- "Real per capita income"—which is actually a measure in constant prices of consumption minus some services—rose by only 0.1 percent.
- Retail sales in constant prices increased by only 0.3 percent. With normal population growth, this implies a per capita decline of about 0.6 percent.⁵

Meanwhile the availability of quality foods declined generally. Despite plans to upgrade the food supply, the USSR has actually lost ground since the late

⁵ The official indicators of growth in the population's well-being usually run 1 to 2 percentage points higher than our synthetically derived measures shown in table 5. In 1981 real per capita income rose by 3.7 percent, and in 1976-80 it rose at an annual average rate of 3.2 percent. The corresponding figures for per capita retail sales were 2.6 percent and 3.7 percent, respectively.

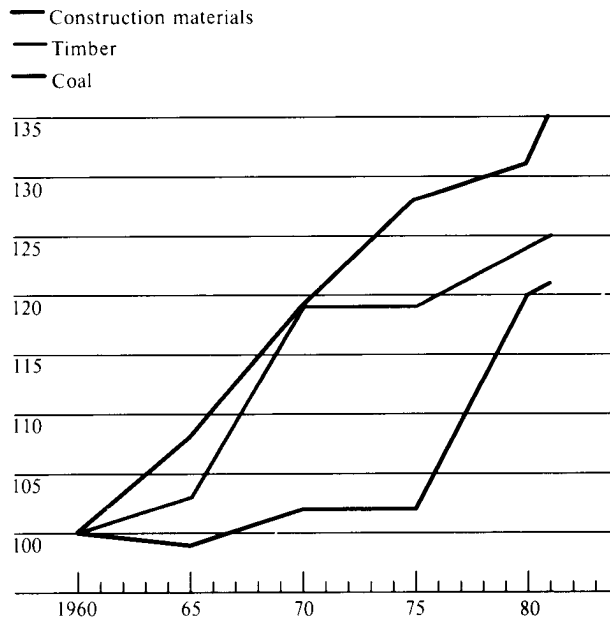
1970s. Per capita meat consumption, for instance, was down slightly in 1982 from its peak 1979 level (table 6). Because food accounts for the largest share of the Soviet family's budget and shortages must be dealt with on a daily basis, changes in food supplies are the Soviet citizen's leading barometer of his standard of living.

In the face of widespread consumer dissatisfaction, the regime took steps to minimize the impact of food shortages on worker morale and productivity. The system of special distribution of foodstuffs through the workplace (which originated in the late 1970s and is considerably more extensive than the traditional special stores for selected elites) has substantially expanded in the last two years. In many factories, for

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Figure 2
USSR: Growth in Average Distance of Rail
Transport for Selected Commodities

Index: 1960=100



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example, trade union officials organize regular deliveries of foodstuffs prepared according to individual orders. In others, coupons are distributed that are redeemable for supplies set aside in retail stores.

Some signs of unrest—such as short-lived work stoppages—occurred during 1981-82, but expressions of discontent generally were limited. Faced with long lines at state outlets, consumers dealt with the shortages in ways that did not threaten the regime—through recourse to much higher priced foods in the officially sanctioned collective farm markets, for example, and through barter and black-market activity. In any case, the distribution of foodstuffs at the workplace effectively headed off protest among the most economically crucial segment of the population.

Table 4
USSR: Average Annual Percentage
Growth of Freight Turnover

	1971-75	1976-80	1981	1982	Planned for 1981-85
Total freight ^a	6.3	3.5	2.5	-0.2	2.5
Railroads	5.3	1.2	1.8	-1.1	2.4
Rivers	5.0	2.0	4.4	2.7	3.5
Roads	8.9	5.0	6.4	0.9	3.9
Oil pipelines	18.8	12.8	3.9	3.5	2.5

^a Excludes gas pipelines.

Table 5
USSR: Percentage Increases in Selected
Indicators of Consumer Welfare

	1971-75	1976-80	1980	1981	Planned for 1982-85
Total per capita consumption	2.8	2.3	2.5	1.9	0.3
Food	1.6	1.3	1.8	0.7	0.9
Soft goods	3.0	3.1	3.7	1.8	-0.6
Durables	10.0	5.0	3.2	7.5	-2.5

^a Preliminary.

Table 6
USSR: Per Capita Availability
of Foodstuffs

Kilograms
(except where noted)

	Peak Year ^a	1981	1982
Meat and meat products	58	57	56.5
Milk and milk products	321	305	295
Fish and fish products	18.4	17.9	18.4
Sugar	44.4	43.9	44.5
Vegetable oil	8.8	9.0	9.3
Potatoes	120	105	110
Fruits	41	40	42
Eggs (units)	239	245	249
Vegetables	98	98	101
Bread and cereal products	141	138	137

^a The peak year is the year between 1975 and 1980 when availability per person was highest. It varies for the different categories.**Confidential**

Confidential**Table 7***Million US \$***USSR: Estimated Hard Currency Balance of Payments**

	1970	1975	1977	1979	1980	1981	1982 ^a
Current account balance	260	-4,607	462	2,178	1,904	-100	4,206
Trade balance	-560	-6,297	-2,942	-2,018	-2,486	-4,000	-1,294
Exports, f.o.b.	2,424	8,280	11,863	19,417	23,584	23,778	26,152
Imports, f.o.b.	2,984	14,577	14,805	21,435	26,070	27,778	27,446
Additional military deliveries to LDCs, f.o.b. ^b	400	1,500	3,220	3,855	4,200	4,200	5,900
Net interest	-80	-570	-848	-799	-710	-1,300	-1,500
Other invisibles and transfers	500	760	1,032	1,140	900	1,000	1,100
Capital account balance	NA	6,522	2,830	338	1,628	5,940	-1,270
Gross drawings ^c	NA	6,371	2,857	4,474	2,865	6,300	2,600
Government-backed	450	1,972	1,991	2,410	2,195	2,100	2,800
Commercial	NA	4,399	866	2,064	670	4,200	-200
Repayments	NA	969	1,955	2,800	3,051	3,200	3,400
Government-backed	160	730	1,285	1,702	1,915	2,000	2,100
Commercial	NA	239	670	1,098	1,136	1,200	1,300
Net change in assets ^d	NA	-395	-310	2,826	-234	-140	1,570
Gold sales	NEGL	725	1,618	1,490	1,580	2,700	1,100
Net errors and omissions ^e	NA	-1,915	-3,292	-2,516	-3,532	-5,840	-2,936

^a Provisional estimate.

^b This item excludes the value of arms-related commercial exports included in the reporting on Soviet exports to individual LDCs, which we estimate at about \$2 billion in 1981. It is based on the reported export residuals in published Soviet/LDC trade figures (that is, the difference between Soviet-reported exports to the LDCs and Soviet reporting on exports to individual LDCs). These figures were reduced by the estimated value of Soviet exports on an f.o.b. basis of major arms systems to LDCs on terms other than hard currency. The

estimates also exclude the value of follow-on services, which may be substantial.

^c Including additions to short-term debt.

^d Net change in Soviet assets held with Western commercial banks.

^e Reflects hard currency assistance to other Communist countries; hard currency trade with other Communist countries; hard currency credits to LDCs to finance Soviet sales of machinery and equipment (including military equipment); and credits to developed Western countries to finance sales of oil and other commodities, as well as errors in other line items of the accounts.

Hard Currency Position

In 1982 the USSR succeeded in reducing its hard currency trade deficit and debt. By strongly pushing exports of oil and curbing imports—the value of grain purchases fell and nonagricultural imports rose only slightly—the Soviets cut the deficit to \$1.3 billion last year, about one-third the level of 1981 (table 7). The improvement in the trade picture, together with sharply increased military deliveries, allowed the USSR to realize a current account surplus of over \$4 billion in 1982, up from a roughly balanced position in 1981.

Largely through improvement in its trade account in 1982—a combination of stepped-up oil exports and reduced imports—Moscow was able to reduce its net hard currency debt by over \$2 billion. In 1981 the debt had increased by approximately \$3 billion (table 8).

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Table 8
USSR: Estimated Hard Currency Debt to the West

Million US \$, yearend

	1975	1976	1977	1978	1979	1980	1981	1982 ^a
Gross debt	10,577	14,707	15,609	16,373	18,047	17,861	20,900	20,100
Commercial debt	6,947	9,662	9,858	9,513	10,479	10,013	13,000	11,500
Government and government-backed debt	3,630	5,045	5,751	6,860	7,568	7,848	7,900	8,600
Assets in Western banks	3,127	4,738	4,428	5,980	8,806	8,572	8,430	10,000
Net debt	7,450	9,969	11,181	10,393	9,241	9,289	12,470	10,100

^a Preliminary estimate.

Reasons for the Lackluster Performance in 1981 and 1982

The sluggish performance of the Soviet economy in 1981-82 partly reflected circumstances that were beyond the leadership's control. It stemmed also, however, from resource allocation decisions made by the regime as well as from longstanding flaws in the USSR's system of planning and administration.

Outside Factors

Harsh weather is a constant threat to agricultural production in the USSR. It continued to plague the farm sector during 1981-82 as the USSR suffered its third and fourth consecutive poor grain harvests. To a lesser extent, harsh weather also hindered construction, transportation, and the production of electric power—a critical input to industry as well as other sectors of the economy.

Economic performance was affected also as fewer people joined the labor force. Increments to the working-age population have been declining since the mid-1970s because of lower birth rates in the 1960s, an increase in the number of workers reaching retirement age, and a rising mortality among males in the 25-to-44 age range. The falloff became pronounced in 1980, and increments will remain very low throughout the decade.

The impact of declining increments to the working-age population on employment growth in the USSR during 1981-82 was lessened somewhat, however, by changes in the age and sex structure of the population and by the increased participation of pensioners. As a result, although employment growth continued to slow, the decline was gradual—that is, employment continued to increase, albeit more slowly than in previous years (table 9). We do not believe, however, that in the aggregate the slowdown in employment growth was a major cause of the USSR's poor economic performance during 1981-82.

A third limiting factor beyond the leadership's control was the continued escalation of the cost of extracting, refining, and transporting fuels and raw materials in 1981-82. Even though the Soviet Union is endowed with enormous quantities and a wide variety of raw materials, in many instances these materials have become increasingly inaccessible and the cost of exploiting them has risen sharply:

- The Soviet economy has become increasingly dependent on the Siberian areas of the country for fuels and other raw materials. Developing these new areas requires large capital investments, particularly in construction.

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Table 9 *Percent*
USSR: Change in Employment

	1971-75 ^a	1976-80 ^a	1980	1981	1982
Total employment (excluding private farming)	1.9	1.4	1.2	1.0	0.7
Industry	1.5	1.6	1.1	0.9	0.8
Socialized agriculture	-0.3	-0.6	-0.5	-0.1	-0.7
Transportation and communications	2.9	2.2	2.0	1.8	1.7
Construction	3.2	1.2	0.8	0.5	0.2
Trade, forestry, and other	3.3	1.9	1.7	1.3	0.8
Nonproductive sectors	3.3	2.6	2.6	1.8	1.6

^a Average annual rate of growth.

- Most of the new areas require both the basic facilities for exploration and exploitation and the normal social overhead capital—roads, housing, cultural, and service facilities.
- The declining quality of readily available raw materials has pushed up capital requirements because of the cost of enriching poor-grade minerals and ores.

Policy Errors

Some of the difficulties of the Soviet economy in 1981-82, on the other hand, arose from deliberate policy choices. At a time when investment needs were rising rapidly, the 11th Five-Year Plan called for investment spending to grow by less than 2 percent per year during 1981-85. This was by far the lowest planned increase in the post-World War II period. The marked slowdown, while partly forced upon the leadership by production constraints in the capital goods industries, also reflects a conscious attempt to switch to a more intensive pattern of growth—that is, growth through more efficient use of resources and more rapid technological progress.

In essence, achievement of the growth in GNP and its component sectors set forth in the 1981-85 Five-Year Plan was predicated largely on increases in the productivity of capital and labor. Increasing the efficiency of capital investment is one of the central national economic goals of the plan. However, the assumption that slower growth in investment is consistent with rising productivity clearly was misguided. After declining at an average annual rate of 4.2 percent during 1976-80, capital productivity in industry dropped by 4.9 percent in 1981 and by 4.3 percent in 1982.

Soviet planners also have made costly errors in allocating investment resources. In some cases, investment in large-scale capacities for improving the quality of raw materials such as iron ore has been emphasized at the cost of modernizing capacities for finished products. In other cases the planners have increased the Soviet capacity for manufacturing intermediate and finished products while neglecting to develop the raw material supplies essential to ensuring full use of that capacity. Many of the domestic bottlenecks experienced in 1981-82 are the result of such planning mistakes.

Domestic production of cement is a case in point. Past investment policy has favored construction of large and costly cement kilns while neglecting the development of raw materials needed to operate them. Cement production in the USSR fell 2.5 percent in 1982, largely because of shortages of raw materials. Such shortsighted investment policies have continued in the current planning period, meaning that further shortages and bottlenecks can be expected in the future.

Meanwhile, the USSR's policy of preferential economic treatment of East European countries has held back efforts to ease strains in the domestic economy. This policy, dictated by Soviet interest in maintaining political and social stability in those countries, has been implemented mainly through indirect subsidization (granting concessionary terms on trade with

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Eastern Europe) and credits (mainly in the form of trade surpluses). Such subsidies and credits, in effect, represent a transfer of resources from the Soviet Union to Eastern Europe. []

Although the size of the transfer decreased during 1981-82, it was still substantial. Moscow's economic support of Eastern Europe rose from an estimated \$18 billion in 1980 to \$21 billion in 1981 and then declined to an estimated \$15 billion in 1982. Price concessions on oil exports to Eastern Europe accounted for the largest share of the subsidy bill.⁶ []

The subsidy on oil, however, declined to \$9.7 billion in 1981 and to \$6 billion in 1982, as the price Moscow charged Eastern Europe for oil approached the world market price. About a seventh of the decline in the oil subsidy resulted from the roughly 8-percent drop in the volume of oil deliveries to Eastern Europe. The oil subsidy could disappear entirely, as the price charged the East Europeans—an estimated \$27 a barrel—may soon be higher than the world market price. []

The Soviet trade surplus with Eastern Europe increased in 1981 to \$4.3 billion (from \$1.6 billion in 1980), mainly because of a sharp rise in the surplus with Poland. In 1982, however, the trade surplus with Eastern Europe declined by more than a third, primarily because of reduced Polish import demand caused by the depressed level of economic activity in Poland. []

Moscow's effort to improve its hard currency financial position in 1982 also came at a cost to the Soviet economy—and to the economies of Eastern Europe, which in that year received less favorable treatment than usual. The Soviets achieved their increase in oil exports for hard currency, for instance, in part by cutting back deliveries to Eastern Europe and holding down Soviet domestic oil consumption and possibly by digging into their oil reserves. The USSR also had to forgo some imports of nonagricultural commodities. Moscow's determination to improve its hard currency position was clearly demonstrated by the decision to

⁶ The price at which Moscow sells oil—as well as other commodities not traded for hard currency—to Eastern Europe in any year is based on an average of world market prices in the preceding five years. []

limit imports of grain despite the elevated priority for the Soviet consumer in recent years. The reduction in grain imports is likely to limit any increase in the per capita availability of meat and dairy products in 1983.⁷ []

Systemic Problems

A third reason for the economy's recent lackluster performance is the shortcomings and vulnerabilities inherent in the USSR's system of planning. Economic planning and management is highly centralized, with key resources allocated by administrative fiat. As the economy has grown in size and complexity, it has become more difficult to manage. Moreover, continuing the tradition of overly optimistic plans, many of the key 11th FYP goals are totally unrealistic, based on projected productivity increases that cannot possibly be met. The result is to intensify the pressure on lower level managers to protect themselves—by such practices as the hoarding of material and labor resources, which aggravate already serious bottlenecks. []

The events of the last two years also suggest that efforts to improve economic performance through “reforms” that modify the existing system—without sacrificing any of its basic features—will prove futile. A case in point is the attempt to change success indicators while retaining the system in which success indicators are the prime influence on managerial behavior. A key element in the reform package unveiled in July 1979 was the plan to replace value of gross output with “normative net output” as the prime success indicator.⁸ The expectation was that under the new arrangement waste of materials would be drastically reduced, with managers being motivated to use their resources in a more efficient and rational way. []

⁸ Normative net output resembles, but is not identical to, the Western concept of value added. Specifically, the normative net output of a Soviet enterprise is the sum of its wage costs, social insurance, and profits. Such elements as amortization, material, and energy costs, which would enter calculations of enterprise gross output, are thus excluded. []

A recent article in *Sotsialisticheskaya industriya* indicates that application of the normative net output standard—which has been introduced into several sectors of the economy over the last two years—has simply replaced one set of abuses with another. According to the article, enterprises have begun to alter the mix of products they produce (that is, they are producing more of the labor-intensive and less of the material-intensive goods) in order to perform well in terms of the new indicator. In the timber sector, for instance, the value of production increased by 5 percent in 1982, but the industry did not produce the assortment mix called for in the plan. [REDACTED]

The Bottom Line

Because of the combination of outside and systemic factors discussed above, we did not expect the 11th FYP to show any substantial rebound in economic growth from the sharply lower rates of increase in 1979-80. Indeed, economic growth in 1981-82—while far below officially expressed Soviet expectations—has not been appreciably lower than we anticipated at the outset of the plan. The severity of the stringencies and bottlenecks that have emerged, however, has been surprising.⁹

- Perhaps most critically, there were widespread shortages of basic raw materials and intermediate goods, particularly iron ore, steel, lumber, cement, and other building materials.
- Shortages of fuels and energy resources became more disruptive. Shortages of coal, for instance, adversely affected the operation of electric power stations. As a result, power outages, brownouts, and other malfunctions became commonplace, causing equipment damage and disrupting production.

⁹ Market imbalances have always characterized the USSR's centrally directed economy. In recent decades they have grown from mere imbalances to bottlenecks and shortages, and beginning in the mid-to-late 1970s they have become particularly widespread and chronic. While quantification of their impact is difficult, the increased frequency and the breadth of the disruptions in recent years suggest that they have become a major factor contributing to the dramatic drop in the growth of industrial output and to the slowdown in economic growth in the Soviet Union. [REDACTED]

- Rail freight transport service became strained. As a consequence, industrial production was frequently fettered by delays in the receipt of raw materials as well as by pileups of finished goods awaiting shipment to customers.¹⁰ [REDACTED]

Certainly these bottlenecks are due in part to tightening constraints beyond the control of the leadership (many of which, such as the labor and energy shortages, have not yet reached peak severity) and to systemic defects. Primarily, however, they reflect the excessive tautness in the economy during 1981-82 brought on by overzealous and unrealistic plans and lopsided investment allocations, which stressed development of certain sectors or activities to the detriment of others that are also important to economic growth. If these bottlenecks are not eased, the economic slowdown could intensify over the next several years. [REDACTED]

Has the Game Plan Changed?

As the first two years of the 1981-85 Five-Year Plan neared completion, it must have become clear to the leaders that their original economic strategy was not working. The large increases in both capital and labor productivity needed to meet the ambitious output targets had not materialized, largely because little or no progress was made either in conserving raw material inputs and labor resources or in improving the management and organization of the economy. By the end of 1982, output in most major sectors had fallen so far behind plan that, even if the originally scheduled growth rates were achieved in the remaining three years, the cumulative totals for many key economic aggregates and commodities would, by 1985, still lag well behind initial plan goals. Despite [REDACTED]

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"It's a new face—but will it be the same old line?"



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this poor showing, it appears—on the basis of the information published on the 1983 plan, decrees promulgated on governmental policies, and specific actions taken by the Andropov regime so far—that no major policy changes have been made.

average annual rate of growth implied by the 1981-85 Five-Year Plan (4.7 percent). In large part, this reflects a recognition that bottlenecks in transportation and industrial materials supply cannot be broken easily or soon.

Economic Policies Reflected in the 1983 Plan

Examination of the 1983 plan suggests that, except in agriculture, Soviet planners are not striving to put the economy back on the originally planned growth track. For example, the growth target for industrial production in the 1983 plan (3.2 percent) is well below the

Investment. Since investment is important in determining what direction the economy will take, investment plans provide particularly useful clues to Soviet economic policy. Information on 1983 investment plans is, unfortunately, sparse and ambiguous. But the

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1983 plan raises the possibility that there has been some change from the original five-year plan with regard to total investment.¹¹ Investment is scheduled to rise by 2.3 percent in 1983. This is slightly higher than the average annual rate of growth in investment of 1.6 percent implied by the 11th Five-Year Plan target and the 2.0 percent achieved in 1982. [REDACTED]

The 1983 plan also indicates that even greater emphasis is to be given to the policy of curtailing new construction and emphasizing the renovation and modernization of existing facilities. Raising the share of equipment and machinery in investment is a key element in this policy.¹² In 1983 this share is planned to rise even more than originally planned. Machinery and equipment are scheduled to account for slightly more than 42 percent of investment (the original target was 39 percent for both 1983 and 1981-85 as a whole). [REDACTED]

Modernization efforts are to be directed particularly at labor-intensive auxiliary processes (such as materials handling, loading-unloading, and warehousing), which currently absorb as much as one-half of the USSR's industrial work force. The number of new construction starts are to be cut back and resources concentrated on completing projects already in train. In addition, the Soviets are planning a 10-percent rise this year in the amount of capital investment for the reconstruction and retooling of existing enterprises. In these ways they hope to raise the share of machinery and equipment in total investment, upgrade the technological level of the industrial base, and raise the productivity of labor and capital resources. [REDACTED]

It is not clear which sectors will benefit from this policy. Andropov indicated in his speech to the Central Committee plenum in November 1982 that priority would be given to providing machinery, including technologically advanced machinery, to bottleneck sectors. He specifically listed fuels and energy, ferrous metallurgy, chemicals, construction materials, and

¹¹ Indeed, the implied premise of the 11th Five-Year Plan—that increases in productivity are compatible with a slowing investment growth—has been vigorously and publicly challenged in the Soviet Union for over a year. [REDACTED]

¹² Although some of this renovation and modernization activity involves partial reconstruction of selected facilities, the overwhelming share is for the replacement of obsolescent machinery and equipment. [REDACTED]

machine building. But whether he meant that these sectors were to get more machinery than in the original version of the 1981-85 Five-Year Plan was not specified. The concern Andropov has expressed for the consumer could also lead to allocation of a somewhat larger share of investment in the next five-year plan to sectors directly benefiting the consumer—for example, the light and food industries. [REDACTED]

Agriculture. There are no indications of significant changes in agricultural policy in 1983. Plans for crop production, for instance, have been set largely at the levels indicated originally in the 11th Five-Year Plan. Only the plan for the production of sugar beets has been reduced. Further evidence that agricultural policy is proceeding along the lines laid down by Brezhnev is the support Andropov has given to the food program.¹³ Some Soviet officials have expressed reservations about the program on the grounds that agriculture is already receiving a disproportionate share of the economy's resources. Investment in the agro-industrial complex, however, is slated to increase 4.5 percent in 1983, to equal a third of total investment.¹⁴ This is the share of investment resources that Brezhnev, at the special Central Committee plenum on agriculture in May 1982, promised to allocate to the agro-industrial complex in the 1980s (table 10). [REDACTED]

The emphasis in 1983 will be on investment in industries serving agriculture. Direct investment in the farm sector—state and collective farms and some agricultural service organizations—is scheduled to increase slightly over 2 percent, or at roughly the rate of overall investment. But investment in industries that serve agriculture is planned to rise by a robust 15 percent. [REDACTED]

¹⁴ The agro-industrial complex consists of the Ministry of Agriculture, ministries providing to agriculture such goods and services as fertilizer, pesticides, machinery, mixed feed, repair services, roads, storage, and transportation facilities; the Ministry of Procurement; and ministries managing the food-processing industries. [REDACTED]

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Table 10

USSR: Investment in Agriculture ^a

	1971-75		1976-80		1981		1982		1983 (Plan)		1981-85 (Plan)	
	Billion Rubles	Percent of Total	Billion Rubles	Percent of Total	Billion Rubles	Percent of Total	Billion Rubles	Percent of Total	Billion Rubles	Percent of Total	Billion Rubles	Percent of Total
Agro-industrial complex	165.0	100	215.0	100	44.5	100	44.9	100	46.9	100	233.0	100
Direct to agriculture ^b	131.1	79	173.2	81	36.7	82	37.0	82	37.8	81	189.6	81
Supporting industries ^c	33.9	21	41.8	19	7.8	18	7.9	18	9.1	19	43.4	19

^a Soviet data expressed in 1973 prices.^b Includes both "productive" investment and "nonproductive" (for construction of housing, schools, clubs, hospitals, and the like), plus expenditures for the construction of repair enterprises, agricultural research institutions, construction-related enterprises of the Ministry of Land Reclamation and Water Resources, and enterprises (within the agricultural sector) for the processing of agricultural products.^c Includes industries that produce machinery and equipment for agriculture and for the food industry, fertilizers, and livestock feed products. Also included are food processing as well as fishing, specialized transportation, and trade and consumer cooperative enterprises.

Several particularly large investment increases are scheduled in 1983, suggesting high priority for the industries receiving them. For example, the planned investment in facilities for the production of fertilizers and pesticides in 1983 represents a 55-percent increase relative to 1981;¹⁵ for the production of equipment for the food, processing, and mixed feed industries a 90-percent increase; and for the tractor and agricultural machinery industries a 28-percent increase. We believe the large increases in investment in the support industries represent an effort to get the food program off the ground and bring investment up to 1981-85 Plan levels; and this would indicate that Andropov retains the priority that Brezhnev accorded to solving the food problem.¹⁶

¹⁵ Percentage increases for individual industries in 1982 are not available but are probably not significantly different from those from 1981 to 1983, since growth in investment in the industries serving agriculture was apparently low in 1982.

¹⁶ Politburo meetings under Andropov, judging by Soviet press reporting on the agenda of these meetings, have devoted more time to agriculture than to any other domestic issue.

Consumer Goods and Services. Several party-state directives were published by mid-1983 calling for improvements in the level of daily services and in the supply of consumer goods provided to the population:

- A resolution was adopted by the Central Committee in February demanding that ministry, department, and union republic officials perform better in constructing housing and consumer service facilities. The State Committee for Material-Technical Supply (Gossnab), the State Planning Committee (Gosplan), and several ministries (including the Ministry of Ferrous Metallurgy and the Ministry of the Timber, Pulp and Paper, and Wood Processing Industry) were instructed to ensure that material supplies are provided to construction organizations on a priority basis so that housing construction targets can be met.

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- A joint Central Committee–Council of Ministers resolution was published in March calling for an expansion of the number of repair and cleaning shops; more personal services such as hairdressing, photography development, and the rental of consumer durables; and the establishment of working hours in the service sector that are more convenient for the consumer.
- A joint Central Committee–Council of Ministers decree, passed in late April, discusses “the additional production” of consumer goods, contains unusually blunt warnings to consumer ministries to shape up, and instructs several state committees to prepare new measures to improve planning, incentives, and price-setting in the consumer goods sector.

Because these directives are somewhat vague, their policy implications and likely impact are difficult to assess. The surge in decrees on consumer goods and services in the first few months of Andropov’s rule, however, suggests that the new regime wants to demonstrate concern for the welfare of the populace. What is not clear is the extent to which the leadership will back up pronouncements about improving consumer well-being with increases in resource allocations. The published decrees do not point to any substantial redirection of resources to consumption in 1983 or even in subsequent years.

Defense. During the 1960s and the early 1970s, Soviet defense spending grew robustly at about the same rate as the economy—around 4 percent a year—and defense consumed about 13 to 14 percent of GNP (the equivalent figure was about 6 percent for the United States). The high share of GNP devoted to military use in the USSR has contributed significantly to the overall constraints on resource allocation that have contributed to the Soviet economic slowdown.

Since the middle of the 1970s, the rate of increase of defense spending has slowed to about 2 percent annually, mainly because the procurement of weapons has leveled off. The leveling off of weapons procurement in recent years has been accompanied by an increase in the share of machinery allocated to civilian uses. Production of machinery—which consists of consumer durables, producer durables (for investment

and capital repairs), and military hardware—has been increasing at a declining rate. Growth in output of producer and consumer durables, however, has been more rapid than the growth of machinery production as a whole.

The reasons for the leveling off in procurement and the consequent slowing of growth in defense spending are by no means clear. There are a variety of possible reasons, including the normal movement of the procurement cycle, technological problems, input bottlenecks, and conscious policy decisions.

Nor is Andropov’s position clear as to the share of resources that should go to the military. In his November 1982 plenum speech, he stated only that “defense requirements as usual have been sufficiently taken into account.” However, during a highly publicized visit to a Moscow machine-tool factory, in the spring of 1983, he implied that a healthy economy is a precondition of military power—suggesting that attention to economic problems may have to come first, at least for a while. Although we are unable to project defense spending with much certainty, the civilian uses of machinery are planned to rise much more rapidly than machinery production as a whole, implying little or no growth for defense uses.

How the leadership actually uses the planned increase in machinery allocated to Soviet production facilities will influence growth of military hardware in the long term. If Moscow decides to concentrate on modernizing civilian industry, as Andropov has hinted, military hardware production would have to grow slowly over a longer period. If a large part of the increment is used to retool and expand defense industries, the growth in military hardware production could soon resume its historical rate. The Soviets have many military development programs under way that could support such an increase, and they continue to expand their defense production facilities.

Whatever Andropov does, an essential point should be kept in mind: even if the level of military procurement were to remain constant or grow at somewhat less

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than the historic rate, Soviet military capabilities would still improve significantly. The Soviets are already investing so much in military hardware that a mere continuation of procurement at the existing level would ensure large annual increments in their holdings of military equipment. []

Foreign Trade. The foreign trade plan for 1983 suggests that Moscow intends to increase trade with its Warsaw Pact partners and other Communist countries and reduce trade with the West. In his report to the Supreme Soviet, Nikolay Baybakov, Chairman of Gosplan, said that trade with socialist countries would increase 7.7 percent—more than double the annual rate of the past two years—and would reach 58 percent of total Soviet trade turnover. He implied that trade with capitalist countries would drop about 4 percent (table 11). []

The most likely explanation for this change is that Moscow is planning on some decline in its hard currency earnings capacity this year, perhaps because it expects reduced earnings from oil exports. In addition, the regime probably expects to continue trimming the very large volume of agricultural commodities imported from the West. []

The decline in oil prices in 1983 may force Moscow to reduce even further its imports from the West. Every dollar drop in the price of oil costs the USSR nearly 450 million in hard currency revenues a year. With Soviet oil prices falling \$3 a barrel from the 1982 average, Moscow's hard currency earnings could slip by more than \$1 billion in 1983, assuming the volume of oil sales remains the same. []

In addition to the direct loss of oil receipts, the USSR's payments position also is likely to be weakened by lower prices for other major export earners. Gas earnings, for example, will be hurt because prices under contracts with Western Europe are tied to a number of oil products. Hard currency receipts from arms sales also may decline because three of the USSR's larger customers—Algeria, Libya, and Iraq—will be less able to pay cash as their own oil earnings decrease. []

Table 11
USSR: Change in Foreign Trade ^a

Percent

	1981	1982	1983 Plan	1981-85 Plan
Total world trade	4.2	3.9	2.5	4.0
With socialist countries	2.3	3.7	7.7	5.6
With nonsocialist countries	7.8	4.2	-4.0	2.3

^a Calculated from Soviet data expressed in current prices.

Assessment of the 1983 Policies

Has the Soviet economic game plan been changed in any essential way by the Andropov regime? The answer is no. Continuity has been far more pronounced than change. Although there may be a new emphasis in some of the economic policies inherited from the previous regime, the central core of policies laid down by the new leadership thus far are within the bounds of those established during the Brezhnev years. Although the Soviet press has portrayed the General Secretary as a dynamic and progressive leader, resolutely determined to find solutions to the problems plaguing the economy, his policies in fact have been less than innovative. []

Investment. Andropov's investment policy—more renovation and modernization and less new construction—is an intensified version of an investment strategy that has been followed for seven years but has not succeeded in reversing the declining trend in economic growth. There is nothing new in it—it was a main feature of the 1976-80 Plan and a central part of the current five-year plan. []

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Carrying out this investment strategy, moreover, will be even more difficult now than when it was first adopted. During the past few years, growth in domestic machinery production has been slowed by stagnation and even decline in the output of steel. The 1983 plan, in fact, calls for the lowest planned growth in machinery production since World War II—an increase of only 4.8 percent (as indicated above). In addition, the machine-building sector must undergo substantial renovation itself before it can begin to turn out the large amount of high-quality equipment needed to upgrade other industrial sectors and alleviate the serious bottlenecks currently plaguing the economy.

Imports of Western machinery and equipment will not help much. They declined sharply in real terms between 1976 and 1981; and even in 1982, when machinery imports from the West picked up substantially, the total value of purchases was still below that of 1976. While some drawdown of inventories of uninstalled equipment is planned, this source of machinery is insufficient to account for the planned acceleration in the growth rate of machinery investment.

In fact, Moscow has never been able to successfully implement its policy of focusing investment on renovation and modernization. According to Soviet data, from 1976 to 1982 the share of equipment in the total stock of industrial plant and equipment increased only from 36 to 39 percent, while the share of buildings and structures dropped from 50 to about 48 percent.¹⁷ During the same period, the proportion of capital investment for the renovation, expansion, and retooling of existing enterprises increased only 4 percentage points,¹⁸ while the volume of unfinished construction has increased more than 40 percent.

¹⁷ The remainder includes prospecting, designing, and geological work; land betterment; and construction administrative costs.

¹⁸ Even this increase may be misleading. Aware of the official policy to minimize new construction starts, heads of ministries and enterprises resort to subterfuge. Under the guise of "renovation," they carry out new construction—that is, they put up new shops or the buildings of genuinely new enterprises on the grounds of those already in operation or on adjacent tracts and call it "expansion."

On balance, the factors that have worked against the modernization strategy in the past are likely to cause it to fail this time as well:

- Many existing industrial structures have become so decrepit that it is impossible to modernize without substantial renovation of buildings.
- The economy's investment industries are not well suited for such a policy. Design and planning organizations, for example, find standardized construction projects easier and more profitable, the construction industry is not equipped to engage in renovation work, and machine-building enterprises prefer to manufacture standardized equipment rather than the special-order machines needed for renovation.
- The Soviet incentive system discourages modernization efforts. Construction enterprises find new construction easier and more profitable, and plant managers resist renovation because it disrupts production, hindering their efforts to fulfill production targets.

The Food Program. Another example of Andropov's inclination toward continuity is that, rather than grasping the opportunity to reshape the Brezhnev food program, he is sticking with it as the answer to Soviet agricultural problems. But he also seems to be encountering some of the same foot-dragging that Brezhnev faced. The reorganizational aspect of the program, for example—the so-called rayon agro-industrial associations (RAPOs)—is unlikely to be effectively or widely implemented. Despite Soviet claims that 99 percent of rayons have organized RAPOs, we believe that most have done little more than take first steps to form RAPO councils. In February 1983, for instance, M. Gorbachev, the Politburo member in charge of agriculture, complained that many RAPOs are prolonging the organizational stage. Earlier opponents of the food program

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(primarily service organizations) were said to be slowing or blocking implementation, claiming a need for more testing and experimentation.¹⁹ []

historical precedent that the Soviet military's assessment of the external threat is an essential element in this cycle. []

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Consumer Well-Being. In consumer affairs, as in investment, there has been no real innovation. Andropov has exhibited solicitude for consumers through a series of decrees ostensibly aimed at improving their lot. Still, we have no evidence of any substantial redirection of resources to consumer industries. []

Trade. The new regime also has not changed the policy set forth in the 11th FYP of stepping up trade with socialist countries and slowing the growth of trade with the West. In fact, Andropov has moved even further in this direction. In part, this may reflect a continuation of the Soviets' effort to curb their hard currency debt. Even so, more trade with the West is necessary to help ease critical industrial bottlenecks in the USSR—increased trade with the socialist countries will not be a viable substitute. East European (and most other) socialist countries have economic problems of their own and do not have the industrial capacity to cope with increased Soviet demand. Moreover, the technological level of most East European finished goods is still below that of the West. []

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Defense. While Andropov's position on defense is not entirely clear, available evidence indicates he has done nothing so far to accelerate military spending. Still, he may have made changes that are not yet discernible; or major changes may be impending. During the last two Soviet successions, major defense changes occurred only after the new leadership had firmly consolidated its power. []

Immediate Prospects. Although there has been little change in policy so far—Andropov has done little to affect the 1983 plan he inherited—growth in Soviet GNP in 1983 could show considerable change from that of 1982. It could rise to as much as 3.5 to 4 percent if agriculture has a "normal year" (after a succession of poor harvests) and if there is some improvement in industry. Industrial production was almost 4.5 percent higher in the first four months of 1983, in fact, than in January-April 1982, but this increase is at least in part only a recovery from the poor performance at the beginning of 1982. Production of most industrial commodities began to pick up on a *seasonally adjusted basis* in mid-1982, with the result that the overall contrast between the two years will not be so favorable to 1983. Seasonally adjusted industrial production has been growing no faster under Andropov than in the last months under Brezhnev; the rate has changed little since 1978. In the agricultural sector, meat production in collective and state farms reached a record level during the first five months of this year—about 7 percent above the comparable period last year and 6 percent above the previous high achieved in 1978. []

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The new regime, which apparently came to power with the support of the military, may well be under pressure to speed up defense spending to counter a resurgent Western military effort. If a decision has been or is being made to open the defense spigot wider, the Soviets can easily increase the procurement of hardware that is already in production. It will take time, however, for them to overcome the technical and manufacturing problems associated with the development of new weapon systems. These problems apparently have contributed to the recent procurement slowdown, and some of them appear pervasive and will be difficult to correct. []

Opening the spigot would also be costly. Any sharp acceleration of the level of military procurement will make it more difficult for Moscow to solve its general economic problems and will over the long run erode the economic base of the military-industrial complex. []

What is certain is that Andropov must soon decide how to approach the defense spending and allocation issue. The planning cycle for the 12th Five-Year Plan (1986-90) is already under way. We judge from []

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On the other hand, GNP growth could be as low as 2 percent if weather conditions are poor and industrial bottlenecks worsen. As for the longer term outlook, if the General Secretary prefers that economic changes be slow and limited, as we suspect, it will differ little from our pre-Andropov forecast—an average annual growth in GNP of about 2 percent through the 1980s.

Other Initiatives

Although Andropov may not have been able to put his personal stamp on the 1983 plan, he has taken some initiative outside the planning framework and has laid the groundwork for possible future change. The major new element of economic policy this year is the so-called discipline campaign, which he introduced shortly after his accession to power in late 1982. Though not precisely defined, it is intended to prevent and punish corruption and violation of work rules. It is to be broadly applied, affecting managers and workers alike, and is aimed at all forms of corruption. Closely linked to the discipline campaign is the emphasis Andropov says will be placed on tying remuneration to output and on conserving material resources, notably fuels and metals.

The main objective of the campaign is to improve economic performance. Andropov does not believe that greater discipline alone will cure the economy's ills, but he sees it as a necessary beginning. He apparently is confident that coercion or the threat of coercion can increase discipline and that greater discipline will raise productivity. In effect, the campaign seems to be Andropov's affirmation that (1) the system itself does not breed the attitudes that lead to slovenly work habits and corrupt practices and (2) poor discipline is one of the major reasons for economic inefficiency.

In theory, the campaign is mainly to stress tighter discipline in management, and Andropov has in fact fired some allegedly corrupt or incompetent officials. The Minister of Railways was fired shortly after Brezhnev's death and the Minister of Rural Construction a little later, while A. P. Kirilenko was retired from the Party Secretariat and Politburo and V. N. Makeyev was released as deputy chairman of the Council of Ministers. In their place, Andropov has brought in some younger, better educated, and perhaps more innovative officials (see the appendix).

To date, however, the campaign appears to have been directed primarily against blue-collar workers. In particular, the regime has sought to compel workers to do a full day's work. The police are implementing the drive. Internal security forces reportedly have been placed on 12-hour-per-day schedules and have been unleashed on the Moscow citizenry. Militia teams have conducted large-scale daytime document checks, looking for workers who are away from their jobs without permission. Those caught are generally sent back; a few reportedly have been fired.

However, the regime also has tried to make it easier for workers to remain on the job full time. In mid-January the Council of Ministers issued a resolution providing flexible work hours for the service sector and expanding consumer services such as shoe repairs, laundries, and food shops at factories. Its purpose is to correct the situation that forced people to shop for basic needs during working hours. The US Embassy in Moscow reported in February that a number of stores had already adopted evening hours even though the resolution was to take effect in April.

Implementing the discipline campaign will not be easy—it will meet major economic impediments. Wasteful and illegal practices, for example, are so pervasive that it will be almost impossible to do more than eliminate the most blatant abuses. Punitive measures against the worst offenders may help, but they cannot substitute for economic reforms to remedy fundamental structural problems. The campaign already seems to have had some effect in making people work harder, however. East European diplomats have reported that the tempo of work in the Soviet institutions with which they do business has picked up markedly.

There are also political risks in pushing the anticorruption campaign too far. Young party workers who were frustrated by the slow rate of promotions under Brezhnev may welcome a change, but the fear of a purge reportedly impelled many regional officials to oppose Andropov's succession. Any wholesale drive to purify the party could provoke further resistance.

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Nonetheless, the crackdown on economic corruption appears to be moving apace. For example, there has been a sharp rise in press reports of prosecution of such economic crimes as embezzlement and fraud. []

The discipline program may also lack the force it needs to be effective. Labor laws, for instance, effectively bar dismissal of workers for inefficiency. Until the law permits an enterprise manager to dismiss unnecessary or incompetent staff, threats and rhetoric will have little actual impact on a worker's performance. To compound this problem, the Soviet Union is in a period when the labor supply is becoming tight. Over the long haul, unless new laws are instituted, it will be very difficult to improve efficiency in the economy. []

Prospects for the Game Plan in the Longer Run

We believe that caution and conservatism will remain the hallmark of Andropov's approach to economic change. Nevertheless, we cannot rule out the possibility that his emphasis on continuity is tactical and temporary and that he might yet introduce bold and innovative economic programs. []

Two considerations support this possibility. First, Andropov's freedom of action in his first few months as General Secretary has been sharply restricted. Whatever his personal preferences, he is bound in 1983 by an annual economic plan made before Brezhnev's death. The guidelines for this year's plan had been in the making for months; standing commissions of the Supreme Soviet approved them in mid-October, before Andropov came to power. Furthermore, still lacking an independent political base and still much beholden to those who were instrumental in elevating him to power, he must move with circumspection. The military, for example, particularly Defense Minister Ustinov, played a major role in Andropov's rise to power. []

Second, a few of Andropov's actions and pronouncements imply that he may not have totally rejected the eventual implementation of more radical solutions to economic problems. Like most Soviet political leaders, he acknowledges that the economy is beset with problems.²⁰ Indeed, he has been very candid in acknowledging his dissatisfaction with the performance of the economy. He has explicitly noted high costs, overexpenditure of material and financial assets, inadequate gains in labor productivity, and a growing gap between money income and the availability of consumer goods. Furthermore, he has intimated on occasion that some problems may stem from built-in systemic shortcomings. In his November speech to the Central Committee, for instance, he indicated that the success-indicator system itself may encourage managerial resistance to technological progress. Andropov has also encouraged wide-ranging public discussion and debate on what ails the Soviet economy and how to improve its organization and management. []

The specific recommendations Andropov has made indicate that he wants to emphasize:

- Raising productivity through greater worker and managerial discipline and through closer linkage between output and remuneration.
- Greater price flexibility.
- Conservation of labor and material resources.
- Greater decentralization in day-to-day economic decision making. []

²⁰ For at least a decade, public statements by Soviet leaders have demonstrated keen awareness of tightening exogenous constraints and of the consequent need to increase Soviet economic efficiency. Their comments have indicated mounting concern over shortcomings in Soviet economic performance, particularly with respect to energy, transportation, planning and management, and satisfaction of consumer demand. []

The officially voiced Soviet views on the economy's deficiencies are generally similar to those of Western experts. Soviet and Western perceptions differ, however, on ways to correct them. Western observers generally hold that improved performance requires basic systemic change, whereas most Soviet leaders appear to retain faith that the system can be made to work without major departures from central planning and control. []

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Andropov has not offered a comprehensive or clearly articulated list of changes he wants introduced to effect these goals. But a few particulars have emerged in his speeches and other public pronouncements. He is pushing for:

- Closer correlation between production and material rewards, in part through accentuating wage differentiation based on skills required and job difficulty.
- Expanded use of the team or "brigade" organization of workers on the shop floor and of "collective contract" units of farmers.²¹ The common denominator of these arrangements is that relatively small collectives of workers assume production obligations with their enterprises and are rewarded in accordance with the extent to which they meet these obligations.
- More frequent increases or changes in prices in order to keep them in line with production costs. Andropov has also hinted that certain necessities (notably food in state stores) whose price stability has been sacrosanct may now be subject to price increases—but no such prices have yet been raised.

Andropov's recommendations, even if smoothly and comprehensively implemented, would not constitute a significant reform of the economic system.²² We judge

²¹ The Soviet press account of a March Politburo meeting reports that the collective contract form of farm organization has already been approved. The term encompasses a multitude of administrative arrangements whereby subdivisions of a farm conclude contracts with the farm administration to provide various goods or services. In turn, these subdivisions have greater leeway in organizing production and, in some cases, distributing wage funds and profits.

The campaign for the collective contract system predates Andropov's succession to power and has been clearly abetted by a succession of poor harvests, but the recent Politburo endorsement may owe much to Andropov. Press reports suggest a marked acceleration in the introduction of collective contract arrangements on Soviet farms since Brezhnev's death.

²² For example, the USSR has been trying for several years to tie wages more closely to productivity. Team and brigade arrangements were introduced on a limited scale under Brezhnev. Prices in state outlets have never been totally rigid in the USSR. Indeed, in Brezhnev's later years there were sizable price increases for alcoholic beverages and gasoline as well as other consumer goods. Nor is the emphasis being given to conservation new. The 11th Five-Year Plan, for instance, contains stringent targets for resource conservation.

that they would at best result in small improvements in economic efficiency. To the extent that his proposals are only partially implemented, their impact would be even smaller. They leave untouched the three basic ills of the Soviet economic system: (1) the lack of a reliable (efficient) guide to choice; (2) the attenuated influence of consumers on producers; and (3) the absence of the discipline of competition among suppliers.²³

Andropov's intentions with respect to resource allocation policy probably have not yet crystallized. His emphasis on the necessity of raising productivity suggests that he may increase the share of national output going to investment. There has been much published commentary since early 1982 on the need to accelerate investment, particularly in the machinery sector, if productivity is to be boosted. However, as discussed above, it is not clear where the greater investment would be allocated—toward producer goods sectors or toward sectors directly producing consumer goods.

It is also uncertain how far Andropov would push the allocation of a higher share of GNP to investment if this meant increased austerity for consumers, even in the relatively short run. He has stressed that greater material well-being depends on higher productivity—in effect, telling consumers to work harder, complain less, and cinch up their belts a notch. On the other hand, the series of consumer decrees noted above suggests that he does not want to treat the consumer harshly.

As for defense, Andropov's comments have been ambiguous. He has assured the military that it will continue to enjoy priority, but he has indicated at times that its interests will be best served by strengthening the overall economy—that is, by reallocating more to other sectors such as investment. International events during the key planning years 1983-85 will have a decisive role in determining the share of GNP going to defense in the 1986-90 period.

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**Meeting of the Central Committee Plenum
and the Supreme Soviet**

A plenary session of the Central Committee of the Soviet Communist Party was held on 13-14 June 1983 and followed by a meeting of the Supreme Soviet on 15-16 June. The published accounts of the meetings, including major speeches by Politburo and Secretariat member Chernenko and General Secretary Andropov, indicate that:

- *Shortcomings in economic performance continue to preoccupy the party. Andropov frankly and repeatedly stressed the need for improvement, particularly in agriculture, transport, and services.*
- *No new economic strategies for dealing with the USSR's economic problems were put forth, however. Andropov continues to be cautious and conservative in his handling of the economy.*
- *Discipline and hard work will continue to be emphasized in an effort to increase labor productivity. Even Chernenko, an advocate of economic incentives to stimulate labor productivity growth, jumped on the discipline bandwagon. Moreover, the firing of two high-level Central Committee members (see the appendix) served a warning to party members that Andropov means business.*
- *Although consumer issues were given a great deal of attention, no new consumer programs were actually specified nor was it revealed whether and from where the resources would come to implement new initiatives to benefit the consumer.*

The single "new" item to come out of the meetings was the Supreme Soviet approval of a draft law on the participation of workers collectives in the management of enterprises. While the law is new, the changes are essentially cosmetic. They do not enhance labor's power to improve its own welfare. For example, the law gives labor little real authority in making such plant-level decisions as the selection of management personnel or the setting of worker salaries.

Although Andropov did not present any new economic programs, he hammered hard at the need for more rapid technological change as the key to economic progress. As he did in his speech to the Central Committee in November, he stressed that enterprise managers must be better rewarded for the risk of introducing and deploying new technology. He also called for improvements in planning and managing the economy, citing the food and energy programs as successful examples. Current planning efforts, Andropov stated, have caused imbalances, including lags in consumer goods production behind increases in income. Although he promised higher quality health care, a more rational diet of quality foodstuffs, higher quality goods, higher quality of public service, and improvements in housing conditions including a self-contained flat for every family, he was careful to note that improvement in the standard of living will be slow to materialize.

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Comments by Andropov and other high-level party officials at the plenary meeting of the Central Committee held this June indicate that no new, comprehensive economic strategy has yet been formulated (see inset). Although Andropov will have a decisive voice in shaping the annual plans in 1984 and 1985, the main thrust of any major new program, if there is to be one, would almost certainly have to await the 12th Five-Year Plan (1986-90). Whatever changes the General Secretary may intend, however, there is no

guarantee that he would be able to implement them or that they would succeed in improving Soviet economic growth and efficiency. The chief complications are that:

- If its perception of the international situation impelled the Kremlin to speed up defense spending, the possibility of either introducing major reforms or raising the share of investment in GNP would be all but eliminated.

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- Opposition to reform would be formidable. Even if he gained the support of the top leaders, Andropov would still face resistance from local bureaucrats who benefit under the present system.
- The exogenous economic constraints enumerated above and the legacy of past planning errors would be powerful obstacles to the effective execution of even a well-conceived and wholeheartedly supported reform program.

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Confidential**Appendix****Personnel Changes Under Andropov**

General Secretary Andropov's effort to improve the performance of the Soviet economy has included changes in key leadership positions. However, either by choice or because of continuing limitations on his power, he has moved relatively slowly since making a few important personnel changes in the bureaucracy shortly after assuming power. Significantly, few changes were made at the June Central Committee plenum—the most important being the election of Politburo member and Leningrad party boss Grigoriy Romanov to the Secretariat of the Central Committee. The size of the Politburo, the party's governing body, was not changed and remains at 11 members, its lowest number in years.

Andropov himself was recently elected Chairman of the Presidium of the USSR Supreme Soviet. After only seven months in office, he now holds all of the positions it took Brezhnev 13 years to acquire—Chairman of the Presidium of the Supreme Soviet, General Secretary of the Party, and Chairman of the Defense Council. He is the second leader in Soviet history to hold all three posts.

A summary of the most important personnel changes made so far is shown below.

(Andropov was elected General Secretary of the Communist Party in November 1982 and Chairman of the Presidium of the USSR Supreme Soviet in June 1983.)

Position	Date	Personnel Change
Politburo	22 November 1982	Andrey Kirilenko released "for reasons of health and at his own request"
Politburo	22 November 1982	First Secretary of the Azerbaijan Communist Party Geydar Aliyev promoted from a candidate to full member
Politburo	15 June 1983	V. I. Vorotnikov named a candidate member
Party Secretariat	22 November 1982	Kirilenko released
Party Secretariat	22 November 1982	Nikolay Ryzhkov elected
Party Secretariat	15 June 1983	Grigoriy V. Romanov elected

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Position	Date	Personnel Change
Central Committee	7 December 1982	Yevgeniy Tyazhelnikov replaced by Boris Stukalin as head of propaganda department
Central Committee	7 December 1982	Yevgeniy Tyazhelnikov replaced by Boris Stukalin as head of propaganda department
Central Committee	29 April 1983	Yegor Ligachev replaced Kapi-tonov as head of the Organiza-tional Party Work Department
Central Committee	15 June 1983	Former Krasnodar First Secre-tary Medunov and former Minis-ter of Internal Affairs Shchelokov removed, reportedly because of involvement in corrupt activities
Central Committee	15 June 1983	First Deputy Chief of the General Staff of the USSR Akhromeyev, Minister of the Machine-Tool Building and Instrument-Making Industry B. Balmont, USSR Ambassador to the GDR V. Kochemasov, Deputy Defense Minister V. Shabanov, and grain combine operator V. Cherdintsev elected
USSR Council of Ministers	24 November 1982	Aliyev appointed to position of First Deputy Chairman
USSR Council of Ministers	20 January 1983	Valentin Makeyev released and named secretary of the Presidium of the Trade Unions Council.
USSR Council of Ministers	20 March 1983	Andrei Gromyko appointed to po-sition of First Deputy Chairman

Position	Date	Personnel Change
Ministry of the Railroads	29 November 1982	Minister Ivan Pavlovskiy replaced by First Deputy Minister of Railroads Nikolay Konarev
Ministry of Rural Construction	8 December 1982	Minister S. D. Khitrov replaced by Deputy Minister V. D. Danilenko
Ministry of Foreign Affairs	16 December 1982	M. S. Kapitsa and V. G. Komplektov appointed as Deputy Ministers of Foreign Affairs
Ministry of Internal Trade	21 January 1983	Minister Aleksandr Struyev replaced by Grigoriy Vashchenko
Ministry of Internal Affairs	17 December 1982	Minister Nikolay Shchelokov replaced by Vitaliy Fedorchuk
Komsomol	6 December 1982	First Secretary Boris Pastukhov replaced by Viktor Mishin
Committee for State Security (KGB)	17 December 1982	Fedorchuk replaced by Viktor Chebrikov as chairman
Party Control Committee	15 June 1983	RSFSR Premier Solomentsev named to replace A. Ya. Pel'she
State Planning Committee (Gosplan)	14 January 1983	Deputy Chairman Slyunkov sent to Minsk as First Secretary of Belorussian Communist Party and replaced by Lev B. Vasil'yev, previously a Deputy Minister of the Automotive Industry
State Planning Committee (Gosplan)	28 May 1983	First Deputy Chairman Y. P. Ryabov replaced S. A. Skachkov as Chairman of the State Committee for Foreign Economic relations



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